



STATE OF DELAWARE

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October 31, 2017

**MEMORANDUM**

TO: Members of the Commission

FROM: Joseph DeLosa, Public Utilities Analyst *JDS*

SUBJECT: IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY TO ESTABLISH A UTILITY FACILITY RELOCATION CHARGE ("UFRC") RATE TO RECOVER COSTS ASSOCIATED WITH THE RELOCATION OF GAS UTILITY FACILITIES PURSUANT TO 26 DEL. C. §315 (FILED NOVEMBER 30, 2015) - PSC DOCKET NO. 15-1601

IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY TO ESTABLISH A UFRC RATE TO RECOVER COSTS ASSOCIATED WITH THE RELOCATION OF GAS UTILITY FACILITIES PURSUANT TO 26 DEL. C. §315 (FILED MAY 26, 2016) - PSC DOCKET NO. 16-0672

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**Background:**

On July 9, 2001, the General Assembly and the Governor enacted 26 *Del. C.* § 315, which permits natural gas utilities to impose a rate for a "Utility Facility Relocation Charge" ("UFRC Rate") during the period between base rate case proceedings. This UFRC Rate allows the utility to promptly begin to recover depreciation expenses and a return on capital invested in Eligible Utility Facility Relocations<sup>1</sup> recently put into service. The UFRC Rate is intended to allow Delmarva Power & Light Company ("Company") to recover a portion of the cost of relocation of existing facilities necessitated by Department of Transportation or other government agency projects until such time as the Company can recover their investment in a base rate case.

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<sup>1</sup> See 26 *Del. C.* §315 (a) (1)

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Eligible Utility Facility Relocations (“Eligible Relocation”) “means new, used and useful utility plant or facilities of an electric or natural gas utility that:

1. Do not include that portion of any plant or facilities used to increase capacity of or connect to the transmission or distribution system to serve new or additional load;
2. Are in service; and
3. Were not included in the utility’s rate base in its most recent general rate case; and which
4. Relocate, as required or necessitated by Department of Transportation or other government agency projects, without reimbursement existing facilities, including but not limited to, mains, lines, and services, whether underground or aerial.”<sup>2</sup>

Commission Order No. 8138, dated April 17, 2012, approved the final UFRC Rate regulations.<sup>3</sup> The Company then filed a general rate case, Docket No. 12-546, on December 7, 2012. This docket concluded with Order No. 8465, dated October 22, 2013, which in part approved tariff revisions that added a billing line item to recover these Eligible Relocation costs in a UFRC Rate known as “Rider UFRC”.<sup>4</sup>

### **Applications:**

The Company filed an application in Docket No. 15-1601 on November 30, 2015 to establish the UFRC Rate for recovery of a portion of capital improvements costs associated with gas facility relocations/retirements for projects necessitated by the Department of Transportation or other government agencies. In that docket, the Company applied for a UFRC Rate increase of 0.21%, resulting in a UFRC Rate of 1.95%, with an effective date of January 1, 2016. The requested UFRC Rate increase was based on eligible net utility plant additions of \$1,577,984.52 and eligible depreciation expenses of \$9,191.28 incurred during the period May 1, 2015 through October 31, 2015. The request in Docket No. 15-1601 also included recovery of an under collection from the previous UFRC Rate of \$2,008.58. By following the calculations as established in the final UFRC Rate regulations,<sup>5</sup> the Company calculated a semi-annual revenue requirement for the UFRC Rate increase of \$109,102.16. In Order No. 8837 (December 15, 2015), the Commission allowed the 0.21% increase in the UFRC Rate to go into effect from January 1, 2016 through June 30, 2016, subject to annual reconciliation, audit, and final approval.

In Docket No. 16-0672, on May 26, 2016, the Company similarly filed for an increase in the UFRC Rate of 0.25%, requesting a UFRC Rate of 2.13%<sup>6</sup> effective July 1, 2016. This request

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<sup>2</sup> 26 Del. C. §315 (a)

<sup>3</sup> 26 Del. Admin. C. §1009

<sup>4</sup> DP&L Gas Tariff Leaf No. 81-83.

<sup>5</sup> 26 Del. Admin. C. 1009 Forms 1-5

<sup>6</sup> As the Commission will notice, 1.95% plus 0.25% does not equal 2.13%. The 1.95% rate improperly reflected the disallowed \$73,738.95. (see below) The Company correctly re-calculated its “existing” UFRC Rate (to

was based on eligible net utility plant additions of \$12,872.05 and eligible depreciation expenses of \$258.01 incurred during the period November 1, 2015 through April 30, 2016. The request in Docket No. 15-1601 also included the Company reflecting \$73,738.95 disallowed by the Commission in Order No. 8971 (November 1, 2016). As a result of Commission precedent and the Company's filing of a gas base rate case, the Commission allowed the UFRC Rate of 2.13% to go into effect for the period July 1, 2016 through July 15, 2016 – the date interim rates from the gas base rate case were to take effect.<sup>7</sup> The Commission allowed a UFRC Rate of 0.25% to be collected during the period July 16, 2016 through December 31, 2016.<sup>8</sup> Due to the unique nature of this docket, the specific revenue requirements are discussed below.

### Findings:

On May 31, 2017, Staff commenced the annual reconciliation and audit of the Company's UFRC Rate filing in the instant docket. Staff's findings from that annual audit and reconciliation are below:

- Staff reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the UFRC Rate component. No discrepancies were found.
- Staff determined that the revenue requirement for the UFRC Rates allowed to go into effect by the Commission to be collected during calendar year 2016 were \$794,820.29. This includes:
  - $\$556,395.18 + \$109,102.16 = \$665,497.34$  for the period January 1, 2016 through July 1, 2016, where
    - \$556,395.18 is the amount correctly carried over from the revenue requirement approved in Docket No. 15-1011,
    - \$109,102.16 is the amount allowed to go into effect from the revenue requirement in Docket No. 15-1601.
  - \$54,548.96 for the period July 1, 2016 through July 15, 2016, calculated to reflect the 2.13% UFRC Rate allowed to go into effect per Commission Order No. 8912 (July 12, 2016).
  - \$74,773.98 for the period July 16, 2016 through December 31, 2016, calculated to include a refund of \$73,738.95 required by Commission Order No. 8971 (November 1, 2016).
- Commission Staff ("Staff") determined that the Company collected revenues of \$985,243.96 as a result of the UFRC Rate in calendar year 2016, an over collection of \$190,423.67.

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1.88%) before adding its requested UFRC Rate increase of 0.25% in Docket No. 16-0672, leading to the UFRC Rate of 2.15% ( $1.88 + 0.25 = 2.13$ ). See Company Application in Docket No. 16-0672 at Exhibit A.

<sup>7</sup> Order No. 8912 (July 12, 2016) at 4.

<sup>8</sup> *Id.*

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- As a result of Staff's calculations, discovery, and preemptive discussions with the Company, this over collection of \$190,423.67 was reflected in the UFRC Rate calculation in Docket No. 17-0402.<sup>9</sup> No further action is therefore required to recover that excess revenue in this audit.
- Staff audited the Rate Base components of the UFRC Rate calculations to ensure they met the statutory requirements of Eligible Relocations. Plant additions were traced by project name and to queries run against the Company's SAP billing data systems. No discrepancies were found.
- Staff examined the Depreciation Expense and Rate of Return used in the calculation of the UFRC Rate, and determined that these rates utilized by the Company were the most recently Commission-approved values.

### **Recommendation:**

Based on the annual audit and reconciliation which began on May 31, 2017, Staff recommends that the Commission approve the UFRC Rate of 1.95%, as collected during the period January 1, 2016 through June 30, 2016, the UFRC Rate of 2.13%, as collected during the period July 1, 2016 through July 15, 2016, and the UFRC Rate of 0.25%, as collected during the period July 16, 2016 through December 31, 2016 as final.

Staff recommends that the Commission formally close Docket Nos. 15-1061 and 16-0672.

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<sup>9</sup> See Docket No. 17-0402, Order No. 9080 (June 20, 2017) at 2. ("On May 31, 2017, Staff began the Annual Reconciliation and Audit with Delmarva to discuss and compile the documentation that Staff deemed necessary to complete the audit of the UFRC component and calculations for the revenues received in Docket No. 15-1601, and the utility plant additions and revenues received in Docket No. 16-0672.

**Delmarva's calculations for revenues received as a result of these two Dockets formed the basis for the \$190,424 over-recovery which is a component of the UFRC Rate as calculated in the Application set forth above...")**